

**Remarks by
Michael M. Reyna, Chairman and CEO
Farm Credit Administration
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Thank you for the invitation to address the Farm Credit System's National Directors Conference. I am honored to be with such a distinguished group of individuals — including my colleague, Ann Jorgenson, who, of course, is both an FCA Board Member, and the Chair of the Farm Credit System Insurance Corporation.

I also would like to recognize Hal DeCell who is FCA's new Director of Congressional and Public Affairs. Hal brings both depth and breadth to the position, having worked most recently as Director of HUD's Office of Congressional and Intergovernmental Relations. He knows more than a little bit about agriculture, having previously worked on the Hill with the legendary Jamie Whitten, in a variety of positions including Chief of Staff.

I recently had an opportunity to tour parts of Oklahoma farm country and address the Annual Meeting of Clinton PCA. It was a productive trip for a number of reasons. Beyond the opportunity to visit with the Board of Directors and stockholders of the association, my tour of farm country reminded me yet once again of the essence of what makes farming and farmers unique and special.

Farming and ranching can be, and frequently is, a tough way of life and, an even tougher business — particularly nowadays. And, farmers and ranchers are, by in large, individualistic, rugged, hardworking folks. This was never more evident than when I was driving along the Oklahoma back roads and saw — under the blaze of the mid-day sun — farmer after farmer preparing their fields for the planting season.

Now ... you and I both know that Oklahoma has been hot ... but let me tell you, it has been even drier. And without any rain in the next few days, the prospects for a productive fall harvest will be greatly diminished.

So why are the farmers in that area even bothering with the effort to put something in the ground given the challenges and risks involved?

I think you and know why ... and no, it is not JUST because the Farm Credit System holds their notes. They do it because, in addition to being individualistic, rugged and hardworking folks, they are courageous, optimistic and hopeful too. They know that if they don't get their fields plowed and their seed in the ground, they for sure have no chance of ever getting a crop.

Farmers in Oklahoma are doing the right thing, they are doing it the right way, and they are doing it for the right reasons.

I share that story with you because I think it is a fair parallel to what the Farm Credit Administration (FCA) is attempting to do right now with our National Charter initiative.

We are trying to do what we believe is the right thing for the Farm Credit System and we are trying to do it the right way and for the right reasons.

Congress has given the Farm Credit Administration the responsibility to ensure the Farm Credit System (FCS or System) operates in a safe and sound manner so that the System remains a dependable and competitive source of credit for farmers, ranchers, cooperatives and rural America. As an independent executive branch agency, this is our basic mandate.

It is true that Congress has given the Farm Credit Administration broad regulatory and supervisory powers to take corrective action against individual System institutions as appropriate and necessary. The key here, however, is the fact that Congress has focused the FCA Board's attention on the viability of the entire System, rather than on any one particular FCS institution.

The ongoing challenge that FCA has, however, is how best to accomplish that congressional mandate, particularly in light of the continually changing agricultural and financial sectors. This has never been—and never will be—an easy task. But then again, neither has farming and ranching.

After years and years of study, FCA has chosen a course of action that we believe will ensure the long-term viability of the Farm Credit System for the benefit of agriculture and rural America.

As we all remember, our country was founded, in part, on the basis of: "liberty and justice for all." We hear these words tossed around from time to time. Sometimes we hear them so frequently that we forget that they are as relevant today as they were over 200 years ago.

In fact, I believe these words can still guide our agenda, and they can serve as a philosophical foundation for our actions.

Liberty, of course, embodies our treasured concept of freedom ... freedom to speak ... freedom to associate ... freedom to choose. It suggests the notion that the fewer rules and constraints on our freedoms the better. In other words, the less government intervention in our lives — in our marketplaces — the better. In a practical sense, greater flexibility results in greater freedom and independence.

We all know, however, that freedom is not free. One price of freedom is responsibility. And, part and parcel with the notion of responsibility is the requirement for accountability.

Justice, of course, embodies our treasured concept of fairness. The practical application of fairness is reflected in equal treatment under the law ... as well as ... equal access and equal opportunity ... to credit ... to jobs ... and other things.

The FCA Board has a clear congressional mandate ... and I believe the FCA Board's National Charter initiative addresses the changing nature of the agricultural and financial markets in a responsible regulatory manner.

The time to make changes to the structure of the Farm Credit System is now ... now when the System is financially strong and healthy. We cannot ... we MUST not ... wait.

The Secretary of the Treasury, the General Accounting Office and a host of others have noted the ever-present risk of commodity and geographic concentrations in the portfolios of Farm Credit institutions. I believe that for the Farm Credit Administration to sit idly by and, in doing so, fail to proactively address the situation would be irresponsible.

Much like the farmer who plows his field in the face of challenges, I believe the FCA Board has demonstrated great leadership and courage—and even a fair amount of optimism—in proposing changes to the System at this time.

You have heard me speak of the importance of leadership before. Leadership, of course, is the ability to translate vision into reality. That is, in fact, what the FCA Board is trying to do right now ... we are trying to translate our vision into reality ... we are demonstrating leadership.

Public officials are sometimes criticized for saying one thing, and then doing another thing. When a person does this, she or he is said to lack integrity. Ultimately, a lack of integrity leads to a lack of credibility, which creates its own problems.

I have said it before, and let me say again here today: I support the issuance of expanded charters because I believe they are critical to the future viability of the Farm Credit System.

I believe it is important to note at this point that currently over-chartered areas of the System have not presented any undue safety and soundness concerns. Furthermore, I firmly believe that the FCA Board has all the statutory and regulatory authority we need to address problems if they arise.

Let me also assure you that I will undertake every good faith effort to make expanded charters a reality for the benefit of the System, but maybe more importantly for agriculture and rural America.

We also are trying to carry out the National Charter initiative in the right way. As I mentioned previously, I believe the FCA Board has drawn upon many of the same foundations and concepts our founding fathers did before us.

The FCA Board declared in its Philosophy Statement support for a regulatory approach that recognizes the reality of competitive marketplace forces. In essence, the FCA Board recognized that the current structure of the FCS does not have sufficient “freedom” or “flexibility” for the benefit of the customer, nor is the current structure as flexible as the financial marketplace generally.

In fact, the current marketplace contains many artificial and outdated barriers that prevent a farmer from shopping for financial services.

By pursuing the National Charter initiative, the FCA Board acknowledges the reality of competitive market forces yet again. The Board, however, also acknowledges the importance of responsibility and accountability. Our Board also embraces the notion that the best decisions are decisions that are made closest to the customer.

Hence, we believe that the decision as to whether to apply for an expanded charter is best left at the local level. Perhaps most importantly, no Farm Credit System institution will be required to file an application for an expanded charter.

The price of greater operating freedom is that FCS Boards of Directors must be accountable by going on record via a board vote that publicly declares their intent to seek an expanded charter.

Boards of Directors and association managers must also prepare revised business plans, with a special emphasis on service to farmers and ranchers in their local areas. Of course, FCA will only extend these privileges to FCS institutions that have operated in a financially responsible manner — that is, highly rated, well-run institutions.

As a matter of justice ... or in other words ... fairness, the focus on local service areas is particularly important. Concerns have arisen regarding whether FCS institutions will abandon local farmers and ranchers for greener more financially productive pastures. I'm convinced that this will not happen. I can assure you, however, that the local service area plans you develop will demonstrate to FCA, but more importantly to all potential critics, that your institution continues to provide equal access to all local creditworthy borrowers.

Carrying out the National Charter initiative in the right way also means that we must respect and acknowledge statutory limitations in place in several states, including Alabama, Louisiana, and Mississippi, among others.

As you know the FCA Board is currently trying to devise a fair, appropriate and acceptable method to give institutions and stockholders in these states an opportunity to address agricultural and financial marketplace changes in a way that respects their rights.

I want to thank everyone who has provided comments on our proposed Stockholder Vote regulation. We have incorporated many of your suggestions, and as such, I believe the proposed regulation is stronger. To be sure, however, the FCA Board is currently considering whether to repropose the rule and seeking additional comment at this time.

I mentioned I believe the FCA Board is doing the right thing—the National Charter initiative—by seeking practical approaches to enhance the safety and soundness of the System. I also mentioned I believe the FCA Board is doing it the right way—the responsible regulatory way—a way that promotes responsibility and accountability all the way around.

I firmly believe we are doing it for the right reasons, and as a result the System will be stronger and better positioned to serve agriculture and rural America in the coming decades.

Of course, there is no guarantee of success involving most anything we undertake in life ... just go ask a farmer.

The FCA Board is pursuing the National Charter initiative because we believe it is the right thing to do, we are trying to implement it the right way and for the right reasons ... but there is, however, no guarantee that FCA will be successful.

Moreover, there is no guarantee that System institutions that have an expanded charter will be successful either. Boards of Directors and Managers will need to be good leaders and

stewards of their institutions. I can assure you FCA will be there to help you be successful ... because ultimately, your success ... is our success — we are in this together.

While success is never guaranteed ... I do, however, know what the farmers in Oklahoma know. I can't expect to reap a harvest if I don't prepare the ground and plant some seeds.

So I guess in some ways I'm like farmers everywhere ... my attitude with regard to the National Charter initiative and the future of the Farm Credit System is courageous, optimistic and hopeful.

And, like the farmer who is thankful for rain, I am thankful for the support we have received from so many of you.

I also know a strong Farm Credit System makes for a stronger agricultural sector; and, a stronger agricultural sector makes for a stronger rural America; and, a stronger rural America makes for a stronger America.

Thank you again for the invitation to address you today regarding this matter that is of such importance to the future viability of the Farm Credit System. God Bless.